

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name LAKEWOOD WASTEWATER AUTHORITY	County IONIA
Audit Date 12-31-2004	Opinion Date JANUARY 28, 2005	Date Accountant Report Submitted to State MARCH 11, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Karl L. Drake, CPA			
Street Address 3775 Kimmel Road	City Horton	State MI	Zip 49246
Accountant Signature 			

**LAKEWOOD
WASTEWATER
AUTHORITY**

FINANCIAL STATEMENTS

DECEMBER 31, 2004

LAKEWOOD WASTEWATER AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Lakewood Wastewater Authority
Lake Odessa, Michigan 48849

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund, of Lakewood Wastewater Authority, as of and for the year ended December 31, 2004, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Lakewood Wastewater Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities and each major fund of Lakewood Wastewater Authority as of December 31, 2004, and the respective changes in financial position, thereof, for the year then ended in conformity with United States generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2005, on our consideration of Lakewood Wastewater Authority's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grants.

Board of Directors
Lakewood Wastewater Authority

The administration's discussion and analysis and budgetary comparison information on pages 3 through 7 and pages 25-27 are not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lakewood Wastewater Authority's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

A handwritten signature in cursive script that reads "Karl L. Drake".

Karl L. Drake, P.C.
Certified Public Accountant

January 28, 2005

LAKEWOOD WASTEWATER AUTHORITY

Management's Discussion and Analysis

This section of Lakewood Wastewater Authority's annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal year ended December 31, 2004. It is best read in conjunction with the Authority's financial statements that follow this section.

Overview

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand Lakewood Wastewater Authority financially and the two types of statements present different views of the Authority. The government-wide statements reflect information about the activities of the entire Authority, presenting an aggregate view and a longer-term view of the Authority's overall financial status. The fund financial statements focus on individual components of Authority government, reporting the Authority's operations in more detail and demonstrating how services were financed in the short term.

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities report information about the Authority as a whole using accounting methods similar to those used by private-sector companies. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid. The two government-wide statements report the Authority's net assets - the difference between assets and liabilities- as one way to measure the Authority's financial health or position. Over time, increases or decreases in the Authority's net assets are an indicator of whether its financial health is improving or deteriorating. To assess the overall health of the Authority you need to consider additional non-financial factors such as changes in the Authority's customer base and the condition of the Authority's system.

The government-wide financial statements of the Authority are divided into two categories:

- *Governmental activities* - Funds set aside for specific future purposes are included here, including Bond repayment, capital improvements, replacements, and Bio-solid removal.
- *Business-Type activities* - Operation and maintenance of the sanitary sewer system is included here. The Authority charges fees to customers to cover the costs of providing this service.

Fund Financial Statements

The fund financial statements provide more detailed information about the Authority's most significant funds, not the Authority as a whole. The Board of Directors establishes funds as needed to help it control and manage money for particular purposes or to demonstrate that it is meeting legal responsibilities.

The Authority currently has two types of funds:

Governmental funds - The Authority's designated monies are included in governmental funds that focus on how money flows in and out and the balances remaining at year-end that are available for spending. Activity is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Authority that helps you determine whether there are more or fewer resources that can be spent in the near future to finance the Authority's programs. We describe the relationship between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

Proprietary funds - Services for which the Authority charges customers a fee are reported in proprietary funds. Proprietary fund statements provide both long and short-term financial information. The Authority's enterprise fund, the Sewer Fund, is a type of proprietary fund.

The Authority as a Whole

The statement of net assets presents the perspective of the Authority as a whole. Table 1 provides a summary of the Authority's net assets as of December 31, 2004, in thousands of dollars.

TABLE 1	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current and other assets	\$ 1,132	\$ 689	\$ 1,821
Capital Assets	---	9,272	9,272
TOTAL ASSETS	1,132	9,961	11,093
LIABILITIES			
Current liabilities	18	194	212
Long-term liabilities	34	1,270	1,304
TOTAL LIABILITIES	52	1,464	1,516
NET ASSETS			
Invested in capital assets, Net of related debt	---	7,822	7,822
Restricted	403	---	403
Unrestricted	677	675	1,352
TOTAL NET ASSETS	\$ 1,080	\$ 8,497	\$ 9,577

LAKEWOOD WASTEWATER AUTHORITY

Management's Discussion and Analysis

The Authority as a Whole (Continued)

Since this is the first year the Authority has prepared financial statements under the new reporting model, GASB 34, a comparative analysis with the prior year is not included. In both the governmental and business-type activities, capital assets are depreciated on a straight-line basis.

The Authority's combined net assets were \$9.6 million at December 31, 2004. Capital assets (net of related debt) totaling \$7.8 million compares the historical cost, less depreciation, to the long-term debt used to finance the acquisition of those assets. In both the governmental and business-type activities the Authority currently has \$.4 million restricted net assets. (Restricted net assets are reported separately to reflect any assets that cannot be used for daily operations due to legal constraints from debt covenants.) The \$1.4 million in combined unrestricted net assets reflects the accumulated results of all past years' operations.

The following table shows the revenue and expense activity during the current fiscal year and the change in net assets (in thousands of dollars), as reported in the statement of activities.

TABLE 2	Governmental Activities	Business-Type Activities	Total
REVENUE			
Program Revenue			
Charges for Services	\$ 13.8	\$ 981.4	\$ 995.2
General Revenue			
Property Taxes	---	---	---
State Entitlements	---	---	---
Interest Earnings	19.3	5.0	24.3
Other	169.1	-164.8	4.3
TOTAL REVENUE	202.2	821.6	1,023.8
EXPENSES			
General Government	---	---	---
Public Safety	---	---	---
Public Works	---	---	---
Recreation	---	---	---
Interest On Long Term Debt	75.8	---	75.8
Depreciation (Unallocated)	---	---	---
Sewer	---	849.6	849.6
TOTAL EXPENSES	75.8	849.6	925.4
CHANGE IN NET ASSETS	\$ 126.4	\$ -28.0	\$ 98.4

Governmental Activities

The governmental activities experienced an increase in net assets of \$126,000. The primary reasons for this were transfers from the sewer fund in excess of capital expenditures.

Business-Type Activities

The Authority's business-type activity consists of the Sewer Fund. This fund experienced a decrease in net assets of \$28,000 that can be attributed primarily to depreciation expense (\$345,000) and transfers to the other funds. Usage fee revenues are growing slowly at the current rate as a result of new connections on the system. However, the additional revenue has not outpaced increases in expenses especially in the area of employee benefits.

The Authority's Funds

Our analysis of the Authority's major funds follows the government-wide financial statements. As noted earlier, the Authority creates funds to help manage money for specific purposes and to demonstrate accountability for certain activities. The Authority's major governmental funds are the Debt Service Fund and the Special Revenue Funds.

As we completed the year, the governmental funds reported a combined fund balance of \$1,124,701, which is a decrease of \$129,400 from the previous year.

General Fund Budgetary Highlights

Over the course of the year, the Authority amends the budget in response to changing events. In this year, no budget amendments were made.

Capital Asset and Debt Administration

At the end of 2004, the Authority managed capital assets valued at over \$9 million including plant, equipment, and sewer lines. The most significant additions to the Authority's capital assets this year include the MDOT project and continued lift station improvements.

Capital Assets Net of Accumulated Depreciation (dollars are in thousands)						
	Governmental Activities		Business-Type Activities		Totals	
	2004	2003	2004	2003	2004	2003
Non-Depreciable Assets						
Land	\$ ---	\$ ---	\$ 508	\$ 508	\$ 508	\$ 508
Depreciable Assets						
Plant	---	---	8,735	8,796	8,735	8,796
Equipment	---	---	29	56	29	56
Total	\$ ---	\$ ---	\$ 9,272	\$ 9,360	\$ 9,272	\$ 9,360

LAKEWOOD WASTEWATER AUTHORITY

Management's Discussion and Analysis

Capital Asset and Debt Administration (Continued)

At year-end, the Authority had \$1,450,000 in outstanding Transportation Bonds remaining from a 1992 issuance in the amount of \$2,780,000. No new debt resulted from this year's activities. Employee compensated absences account for the Authority's remaining long-term debt.

Economic Factors and Next Year's Budgets and Rates

In the sewer fund, sewer payment revenue was decreased to cover delinquent usage bills for the 2005 budget. Other revenue is about the same. Funds in the sewer fund available for appropriation are \$1,182,000.00, which is about a one percent decrease over last year. The decrease is off set by fewer dollars transferred to some of the other funds. Expenditures are budgeted at approximately an eight percent decrease from last year, most significantly because of fewer dollars transferred to other funds. A new project for the next budget involves the addition of an oxidation ditch as part of the treatment plant. This project is in preparation for the expansion of an egg processing plant that is on the system. This is funded in part by additional connection fees charged to the industry.

The Authority is conducting a connection fee rate study to accumulate funds for future capital improvements (which include upsizing a force main from the main pumping station to the treatment plant and possibly one additional storage lagoon).

Contacting the Authority's Management

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Supervisor, 13751 Harwood Road, Lake Odessa, MI 48849.

STATEMENT OF NET ASSETS

DECEMBER 31, 2004

	Governmental Activities	Business Type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 1,124,701	\$ 616,902	\$ 1,738,603
Due From Other Governmental Units	---	---	---
Accounts Receivable	7,323	71,774	79,097
Prepaid Expenditures	---	---	---
Total Current Assets	1,132,024	688,676	1,820,700
Non-Current Assets			
Capital Assets	---	14,108,933	14,108,933
Less: Accumulated Depreciation	---	-4,837,032	-4,837,032
Total Non-Current Assets	---	9,271,901	9,271,901
TOTAL ASSETS	\$ 1,132,024	\$ 9,960,577	\$ 11,092,601
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts Payable	\$ ---	\$ 14,123	\$ 14,123
Deferred Revenue	7,323	---	7,323
Accrued Interest	10,983	---	10,983
Bonds Payable, Due within One Year	---	180,000	180,000
Total Current Liabilities	18,306	194,123	212,429
Non-Current Liabilities			
Bonds Payable	---	1,270,000	1,270,000
Compensated Absences and Severance Pay	34,084	---	34,084
Total Non-Current Liabilities	34,084	1,270,000	1,304,084
TOTAL LIABILITIES	52,390	1,464,123	1,516,513
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	---	7,821,901	7,821,901
Restricted for Debt Service	402,486	---	402,486
Unrestricted	677,148	674,553	1,351,701
TOTAL NET ASSETS	1,079,634	8,496,454	9,576,088
TOTAL LIABILITIES AND NET ASSETS	\$ 1,132,024	\$ 9,960,577	\$ 11,092,601

See Accompanying Notes to Financial Statements

LAKEWOOD WASTEWATER AUTHORITY

STATEMENT OF ACTIVITES

YEAR ENDED DECEMBER 31, 2004

		Program Revenues		Net <Expense> Revenue and Changes in Net Assets		
	Expenses	Charges For Services	Operating Grants	Governmental Activities	Business - Type Activities	Total
FUNCTIONS/PROGRAMS						
Governmental Activities						
General Government	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
Public Safety	---	---	---	---	---	---
Public Works	---	---	---	---	---	---
Recreational and Cultural	---	---	---	---	---	---
Interest on Long-Term Debt	75,813	13,787	---	-62,026	---	-62,026
Depreciation (Unallocated)	---	---	---	---	---	---
Total Governmental Activities	75,813	13,787	---	-62,026	---	-62,026
Business-Type Activities						
Sewer	849,629	981,440	---	---	131,811	131,811
Total Activities	\$ 925,442	\$ 995,227	\$ ---	\$ -62,026	\$ 131,811	\$ 69,785
General Revenue						
Taxes						
Property Taxes, Levied for General Operations				\$ ---	\$ ---	\$ ---
Property Taxes, Levied for Debt Service				---	---	---
State of Michigan Aid, Unrestricted				---	---	---
Interest Earnings				19,328	5,049	24,377
Transfers				164,822	-164,821	1
Other				4,298	---	4,298
Total General Revenue				188,448	-159,772	28,676
CHANGE IN NET ASSETS				126,422	-27,961	98,461
NET ASSETS - BEGINNING OF YEAR				953,212	8,524,415	9,477,627
NET ASSETS - END OF YEAR				\$ 1,079,634	\$ 8,496,454	\$ 9,576,088

See Accompanying Notes to Financial Statements.

BALANCE SHEET - GOVERNMENTAL FUNDS

DECEMBER 31, 2004

	Debt	Special Revenue	Total Governmental Funds
ASSETS			
Cash and Investments	\$ 413,469	\$ 711,232	\$ 1,124,701
Accounts Receivable	7,323	---	7,323
Due from Other Governmental Units	---	---	---
Due from Other Funds	---	---	---
Prepaid Expenditures	---	---	---
TOTAL ASSETS	\$ 420,792	\$ 711,232	\$ 1,132,024
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ ---	\$ ---	\$ ---
Due to Other Funds	---	---	---
Deferred Revenue	7,323	---	7,323
TOTAL LIABILITIES	7,323	---	7,323
FUND BALANCES			
Reserved for Debt Service	413,469	---	413,469
Unreserved, Designated	---	711,232	711,232
Unreserved and Undesignated	---	---	---
TOTAL FUND BALANCES	413,469	711,232	1,124,701
TOTAL LIABILITIES AND FUND BALANCES	\$ 420,792	\$ 711,232	\$ 1,132,024
TOTAL GOVERNMENTAL FUND BALANCES			\$ 1,124,701
Amounts reported for governmental activities in the statement of net assets are different because:			
Long-term liabilities are not due and payable in the current period and are not reported in the fund:			
Compensated absences			-34,084
Accrued interest is not included as a liability in governmental funds			-10,983
NET ASSETS OF GOVERNMENTAL ACTIVITIES			\$ 1,079,634

See Accompanying Notes to Financial Statements.

LAKEWOOD WASTEWATER AUTHORITY

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2004

	Debt	Special Revenue	Totals
REVENUE			
Property Taxes	\$ ---	\$ ---	\$ ---
State Grants	---	---	---
Charges for Services	10,219	3,568	13,787
Interest	7,407	11,921	19,328
Other	48	4,250	4,298
TOTAL REVENUE	17,674	19,739	37,413
EXPENDITURES			
General Government	---	---	---
Public Safety	---	---	---
Public Works	---	---	---
Recreational and Cultural	---	---	---
Debt Service	72,835	---	72,835
Capital Outlay	---	---	---
TOTAL EXPENDITURES	72,835	---	72,835
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES	-55,161	19,739	-35,422
OTHER FINANCING SOURCES			
Operating Transfers In	247,000	335,000	582,000
Operating Transfers Out	-160,000	-257,178	-417,178
TOTAL OTHER FINANCING SOURCES	87,000	77,822	164,822
NET CHANGE IN FUND BALANCES	31,839	97,561	129,400
FUND BALANCES - BEGINNING OF YEAR	381,630	613,671	995,301
FUND BALANCES - END OF YEAR	\$ 413,469	\$ 711,232	\$ 1,124,701

See Accompanying Notes to Financial Statements.

**RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES**

YEAR ENDED DECEMBER 31, 2004

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ 129,400**

Amounts reported for governmental activities in the statement of activities are different because:

- Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense

Capital Outlay

- Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid

1,106

- Compensated absences are included in expenditures in the statement of activities but not in the governmental funds

-4,084

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 126,422

LAKEWOOD WASTEWATER AUTHORITY

STATEMENT OF NET ASSETS

PROPRIETARY FUND

DECEMBER 31, 2004

	<u>Sewer Fund</u>
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 616,902
Accounts Receivable	71,774
Prepaid Expenses	<u>---</u>
Total Current Assets	<u>688,676</u>
Non-Current Assets	
Capital Assets	<u>9,271,901</u>
TOTAL ASSETS	<u>\$ 9,960,577</u>
 LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 14,123
Long-Term Liabilities	
Bonds Payable	<u>1,450,000</u>
TOTAL LIABILITIES	<u>1,464,123</u>
 NET ASSETS	
Invested in Capital Assets, Net of Related Debt	7,821,901
Restricted for Debt Service	---
Unrestricted	<u>674,553</u>
TOTAL NET ASSETS	<u>\$ 8,496,454</u>

See Accompanying Notes to Financial Statements.

**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND**

FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Sewer Fund</u>
OPERATING REVENUE	
Charges for Services	<u>\$ 981,440</u>
OPERATING EXPENSES	
Salaries	166,215
Payroll Taxes	12,807
Employee Benefits	55,532
Office Supplies	3,822
Gas and Oil	6,752
Supplies and Chemicals	28,235
Maintenance	75,678
Utilities	103,008
Insurance	34,077
Telephone	10,116
Printing	543
Depreciation	345,385
Other	278
Training	1,586
Professional Fees	<u>5,595</u>
TOTAL OPERATING EXPENSES	<u>849,629</u>
OPERATING INCOME	131,811
NON-OPERATING REVENUE <EXPENSES>	
Transfers In <Out> - Net	-164,821
Interest	<u>5,049</u>
CHANGE IN NET ASSETS	-27,961
NET ASSETS - BEGINNING	<u>8,524,415</u>
NET ASSETS - ENDING	<u><u>\$ 8,496,454</u></u>

See Accompanying Notes to Financial Statements.

LAKEWOOD WASTEWATER AUTHORITY

STATEMENT OF CASH FLOW PROPRIETARY FUND

FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Sewer Fund</u>
CASH FLOW FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 967,072
Cash Payments for Goods and Services	-266,363
Cash Payments to Employees	-166,215
Cash Payments for Employee Benefits	<u>-68,339</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>466,155</u>
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers <to> from Other Funds	<u>-164,821</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Bond Principal Payments	<u>-160,000</u>
CASH FLOW FROM INVESTING ACTIVITIES	
Receipts of Interest and Dividends	5,049
Sale of Assets	---
Purchase of Assets	<u>-257,178</u>
NET CASH PROVIDED <USED> BY INVESTING ACTIVITIES	<u>-252,129</u>
NET INCREASE <DECREASE> IN CASH	-110,795
CASH - BEGINNING OF YEAR	<u>727,697</u>
CASH - END OF YEAR	<u><u>\$ 616,902</u></u>
RECONCILIATION OF OPERATING INCOME <LOSS> TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	131,811
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	345,385
Decrease <Increase> in Accounts Receivable	-14,368
Decrease <Increase> in Prepaid Expenses	---
Increase <Decrease> in Accounts Payable	<u>3,327</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ 466,155</u></u>

See Accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Authority conform to United States generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies.

A. REPORTING ENTITY

The Articles of Incorporation were adopted by the incorporating municipal corporations for the purpose of creating an authority under the provisions of Act 233, Public Acts of Michigan, 1955, as amended, on January 20, 1980.

The name of this Authority is Lakewood Wastewater Authority. The municipal office of the authority is located at 13751 Harwood Road, Lake Odessa, Michigan.

The names of the municipal corporations creating this authority are the Township of Woodland, and the Village of Woodland, located in Barry County, State of Michigan, and the Township of Odessa and the Village of Lake Odessa, located in the County of Ionia, State of Michigan, which are designated as the constituent municipalities.

In the event that Federal grants or loans of any combination are received to finance any portion of the costs or proposed improvements and in the event the authority issues revenue bonds pursuant to Act 233, Public Acts of Michigan, 1955, as amended, the authority will establish rates and charge for service in any contract entered into pursuant to Act 233 sufficient to satisfy provisions of the act under which revenue bonds are issued.

The purpose of the Authority is to acquire, construct, operate, maintain, administer and manage any sewage disposal system and treatment plant constructed or to be constructed for the benefit of the constituent municipalities, in accordance with the authorization of Act 232, Public Acts of Michigan, 1955, as amended, or pursuant to any other legal authority, provided, however, that pre-existing systems and treatment plants may be operated in whole or in part by a constituent municipality and such municipality may contract with the authority for the purpose of obtaining services of sewage disposal systems including treatment plants, mains, interceptors, trunks, force mains or other sanitary sewer improvements to be constructed in the future either as new facilities or additions, extensions, enlargements or improvements to existing facilities pursuant to contract between the constituent municipality and the authority.

The governing body of the Authority is a commission, which is composed of six commissioners, three appointed by the Village of Lake Odessa, one appointed by the Township of Odessa, one appointed by the Village of Woodland, and one appointed by the Township of Woodland.

The commissioners are appointed for a term of three years, with the term of office commencing on January 1, of the appropriate year and ending on December 31, of the appropriate year.

NOTES TO FINANCIAL STATEMENTS

A. REPORTING ENTITY (CONTINUED)

As defined by Governmental Accounting Standards Board (GASB) No. 14, the financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The primary government has financial accountability if it:

1. appoints a voting majority of the organization's board, and has the ability to impose its will on the organization; or
2. there is a potential for the component unit to provide certain financial benefits to, or impose certain financial burdens on, the primary government.

Based on the above criteria, no additional organizations or entities are included in these financial statements.

B. BASIS OF PRESENTATION

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Government-Wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Fund Based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

GOVERNMENTAL FUNDS

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than Building and Site Funds) that are legally restricted to expenditures for specified purposes. The Special Revenue Funds maintained by the Authority are the Capital Improvement Fund, Replacement Fund, and Bio-Solids Fund.

Debt Service Funds - Debt Service Funds are used for the collection of revenues and the payment of bonded debt principal and interest. The Authority maintains one debt service fund called the Sewage Disposal Plant Debt Fund.

PROPRIETARY FUNDS

Enterprise Funds - Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through use charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

LAKEWOOD WASTEWATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

B. BASIS OF PRESENTATION (CONTINUED)

PROPRIETARY FUNDS (CONTINUED)

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for usage and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

C. BUDGETS AND BUDGETARY ACCOUNTING

The Debt Service Fund and Special Revenue Funds are under formal budgetary control. Budgets are adopted on the modified accrual basis of accounting. Amendments are by action of the Board.

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Authority's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Authority for these budgetary funds were adopted at the functional level.

D. CASH EQUIVALENTS

The Authority considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

E. FINANCIAL INSTRUMENTS

The Authority does not require collateral to support financial instruments subject to credit risk.

F. SHORT-TERM INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

G. FUND EQUITY

Reservations of fund balance represent these portions of fund equity not appropriable for expenditure or legally segregated for a specific future use.

H. CAPITAL ASSETS

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value materially extended asset life are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Plant and System	15-50 years
Vehicles	5-10 years
Other equipment	5-20 years

I. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

J. TOTAL COLUMNS ON COMBINED STATEMENTS

Total columns on the Combined Statements are captioned (Memo Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

K. RISK MANAGEMENT

The Authority is exposed to various risks of loss to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Authority carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

NOTES TO FINANCIAL STATEMENTS

L. ESTIMATES

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS

A. LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the Authority, by resolution, may authorize investment of surplus funds as follows:

1. In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
2. In certificates of deposit, savings accounts, or depository receipts of a bank, which is a member of the Federal Deposit Insurance Corporation; or a savings and loan association, which a member of the Federal Savings and Loan Insurance Corporation; or a credit union, which is insured by the National Credit Union Association; but only if the bank, savings and loan association, or credit union complies with Subsection (2).
3. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
4. In United States government or Federal agency obligation repurchase agreements.
5. In bankers' acceptances of United States banks.
6. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority is in compliance with State law regarding their cash deposits.

The Authority maintains all of its cash deposits at two banks.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's cash deposits are as follows:

<u>Deposits</u>	<u>Book Value</u>	<u>Carrying Amounts</u>
Insured (FDIC)	\$ 200,000	\$ 200,000
Uninsured & Uncollateralized	1,541,603	1,544,198
Total Deposits	<u>\$ 1,741,603</u>	<u>\$ 1,744,198</u>

The differences between the book value and the bank carrying amounts are caused by deposits in transit and outstanding checks.

NOTE 3 - ACCUMULATED FUND DEFICITS

There were no accumulated fund deficits at December 31, 2004.

NOTE 4 - DUE TO/FROM OTHER FUNDS

There were no due to/due from other funds at December 31, 2004.

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Authority's Business-type activities was as follows:

	<u>Balance January 1, 2004</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Balance December 31, 2004</u>
Assets not being depreciated:				
Land	\$ 507,804	\$ ---	\$ ---	\$ 507,804
Capital assets being depreciated:				
Plant and Sewer System	13,148,500	257,178	---	13,405,678
Equipment	216,493	---	21,042	195,451
Subtotal	13,364,993	257,178	21,042	13,601,129
Accumulated depreciation:				
Plant and Sewer System	4,352,363	318,262	---	4,670,625
Equipment	160,326	27,123	21,042	166,407
Subtotal	4,512,689	345,385	21,042	4,837,032
Net capital assets being depreciated	8,852,304	-88,207	---	8,764,097
Net capital assets	<u>\$ 9,360,108</u>	<u>\$ -88,207</u>	<u>\$ ---</u>	<u>\$ 9,271,901</u>

LAKEWOOD WASTEWATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - BONDS PAYABLE

On February 4, 1992 the Authority issued revenue bonds totaling \$2,780,000. The expenses associated with the bonds were dated February 1, and matured on November 1 of the years 1992 through 2011, with interest payable on each May 1 and November 1 commencing May 1, 1992.

Interest rates varied from 5.1% to 7.8%. Bonds payable after 2001 were refunded as part of a new bond issue dated November 1, 1998. Bonds were issued totaling \$2,005,000. Interest is payable on May 1st and November 1st of each year, with interest rates varying from 3.5% to 4.8%. Principal payments are payable on November 1st each year. Principal and interest are payable as follows:

	Principal	Interest	Total
2005	\$ 180,000	\$ 65,895	\$ 245,895
2006	190,000	58,245	248,245
2007	200,000	49,980	249,980
2008	200,000	41,080	241,080
2009	215,000	31,980	246,980
2010	230,000	22,090	252,090
2011	235,000	11,280	246,280
	<u>\$ 1,450,000</u>	<u>\$ 280,550</u>	<u>\$ 1,730,550</u>

NOTE 7 - RETIREMENT SYSTEM

The Authority has a defined contribution pension plan covering substantially all employees. Contributions are based on 3 1/2 percent of each employee's regular salary and wages. The total pension payments for 2004 were \$5,071. Total qualifying wages were \$150,333.

NOTE 8 - SPECIAL ASSESSMENT RECEIVABLE

When it began operating, the Authority set up a connection charge for 242 new users of \$2,500 each which could be paid in total at once or at a rate of \$125 plus interest each year until paid off. The amount not yet received is recorded as deferred revenue and recognized when received. This amount was \$7,323 at December 31, 2004.

NOTE 9 - BUDGETARY ACCOUNTING

During the year ended December 31, 2004, the Authority incurred no expenditures that were in excess of the amounts appropriated

NOTE 10 - SEGMENT INFORMATION FOR ENTERPRISE FUND

The Authority maintains one Enterprise Fund providing sewer services. Segment information for the year ended December 31, 2004, is as follows:

Operating Revenues	\$ 986,489
Operating Expenses Before Depreciation	504,244
Depreciation	345,385
Operating Income	136,860
Net Earnings <Loss>	-27,961
Total Assets	9,960,577
Long-Term Debt - Payable From Operating Revenue	1,450,000
Total Net Assets	\$ 8,496,454

NOTE 11 - RISK MANAGEMENT AND LITIGATION

The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the past several years the Authority has obtained coverage from commercial insurance companies and has effectively managed risk through various employee education and prevention programs. All risk management activities are accounted for in the Enterprise Fund. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. At December 31, 2004, no claims exist, and no provision has been entered into the accounting records.

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE - DEBT FUND

YEAR ENDED DECEMBER 31, 2004

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUES				
Property Taxes	\$ ---	\$ ---	\$ ---	\$ ---
State Grants	---	---	---	---
Charges for Services	2,000	2,000	10,219	8,219
Interest	7,000	7,000	7,407	407
Other	100	100	48	-52
Transfers In	247,000	247,000	247,000	---
TOTAL REVENUES	256,100	256,100	264,674	8,574
EXPENDITURES				
General Government	---	---	---	---
Public Safety	---	---	---	---
Public Works	---	---	---	---
Recreation and Culture	---	---	---	---
Debt Service	86,100	86,100	72,835	13,265
Capital Outlay	---	---	---	---
Other Uses - Operating Transfers Out	170,000	170,000	160,000	10,000
TOTAL EXPENDITURES	256,100	256,100	232,835	23,265
EXCESS OF REVENUES OVER <UNDER> EXPENDITURES AND OTHER USES	---	---	31,839	31,839
BUDGETARY FUND BALANCE - JANUARY 1, 2004	381,630	381,630	381,630	---
BUDGETARY FUND BALANCE - DECEMBER 31, 2004	\$ 381,630	\$ 381,630	\$ 413,469	\$ 31,839

LAKEWOOD WASTEWATER AUTHORITY

BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUNDS

YEAR ENDED DECEMBER 31, 2004

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUES				
Property Taxes	\$ ---	\$ ---	\$ ---	\$ ---
State Grants	---	---	---	---
Charges for Services	3,000	3,000	3,568	568
Interest	7,200	7,200	11,921	4,721
Other	---	---	4,250	4,250
Transfers In	335,000	335,000	335,000	---
TOTAL REVENUES	345,200	345,200	354,739	9,539
EXPENDITURES				
General Government	---	---	---	---
Public Safety	---	---	---	---
Public Works	---	---	---	---
Recreation and Culture	---	---	---	---
Debt Service	---	---	---	---
Capital Outlay	---	---	---	---
Other Uses - Operating Transfers Out	606,200	606,200	257,178	349,022
TOTAL EXPENDITURES	606,200	606,200	257,178	349,022
EXCESS OF REVENUES OVER <UNDER> EXPENDITURES AND OTHER USES	-261,000	-261,000	97,561	358,561
BUDGETARY FUND BALANCE - JANUARY 1, 2004	613,671	613,671	613,671	---
BUDGETARY FUND BALANCE - DECEMBER 31, 2004	\$ 352,671	\$ 352,671	\$ 711,232	\$ 358,561

OTHER SUPPLEMENTAL INFORMATION

LAKEWOOD WASTEWATER AUTHORITY

COMPARATIVE BALANCE SHEET SEWAGE DISPOSAL PLANT DEBT FUND

DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
ASSETS		
Cash	\$ 413,469	\$ 380,511
Accounts Receivable	---	1,119
Special Assessment Receivable	<u>7,323</u>	<u>11,505</u>
TOTAL ASSETS	<u>\$ 420,792</u>	<u>\$ 393,135</u>
 LIABILITIES AND FUND BALANCE		
Deferred Revenue	\$ 7,323	\$ 11,505
Fund Balance	<u>413,469</u>	<u>381,630</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 420,792</u>	<u>\$ 393,135</u>

**COMPARATIVE STATEMENT OF REVENUE, EXPENDITURES,
TRANSFERS AND FUND BALANCE
SEWAGE DISPOSAL PLANT DEBT FUND**

YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
REVENUE		
Connection Charges	\$ 10,219	\$ 7,869
Interest	7,407	6,125
Penalties	48	224
Miscellaneous	---	---
TOTAL REVENUE	17,674	14,218
EXPENDITURES		
Interest on Bond Issue	72,535	78,967
Fees and Bank Charges	300	600
TOTAL EXPENDITURES	72,835	79,567
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES	-55,161	-65,349
TRANSFERS IN TRANSFERS <OUT>	247,000 -160,000	239,000 -155,000
EXCESS OF REVENUE AND TRANSFERS OVER EXPENDITURES AND TRANSFERS	31,839	18,651
FUND BALANCE - BEGINNING OF YEAR	381,630	362,979
FUND BALANCE - END OF YEAR	\$ 413,469	\$ 381,630

LAKEWOOD WASTEWATER AUTHORITY

COMPARATIVE BALANCE SHEET REPLACEMENT FUND

DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
ASSETS		
Cash	\$ 299,551	\$ 251,030
Certificates of Deposit	<u>---</u>	<u>---</u>
TOTAL ASSETS	<u>299,551</u>	<u>251,030</u>
FUND BALANCE	<u>\$ 299,551</u>	<u>\$ 251,030</u>

COMPARATIVE STATEMENT OF REVENUE, EXPENDITURES, TRANSFERS AND FUND BALANCE REPLACEMENT FUND

YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
REVENUE		
Interest	\$ 5,215	\$ 5,068
EXPENDITURES	<u>---</u>	<u>---</u>
EXCESS OF REVENUES OVER EXPENDITURES	5,215	5,068
TRANSFERS IN	200,000	70,500
TRANSFERS <OUT>		
Plant	-156,694	-27,093
Equipment	---	-9,900
Other	<u>---</u>	<u>---</u>
EXCESS OF REVENUES AND TRANSFERS OVER <UNDER> EXPENDITURES AND TRANSFERS	48,521	38,575
FUND BALANCE - BEGINNING OF YEAR	<u>251,030</u>	<u>212,455</u>
FUND BALANCE - END OF YEAR	<u>\$ 299,551</u>	<u>\$ 251,030</u>

**COMPARATIVE BALANCE SHEET
CAPITAL IMPROVEMENT FUND**

DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
ASSETS		
Cash	\$ 303,736	\$ 291,278
Certificates of Deposit	---	---
TOTAL ASSETS	<u>303,736</u>	<u>291,278</u>
LIABILITIES AND FUND BALANCE		
Escrow Payable	---	---
Fund Balance	<u>303,736</u>	<u>291,278</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 303,736</u>	<u>\$ 291,278</u>

**COMPARATIVE STATEMENT OF REVENUE, EXPENDITURES,
TRANSFERS AND FUND BALANCE
CAPITAL IMPROVEMENT FUND**

YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
REVENUE		
Connection Charges	\$ 3,568	\$ 7,928
Interest	5,124	6,244
Land Rent	<u>4,250</u>	<u>---</u>
TOTAL REVENUE	<u>12,942</u>	<u>14,172</u>
EXPENDITURES	<u>---</u>	<u>---</u>
EXCESS OF REVENUE AND TRANSFERS OVER EXPENDITURES	12,942	14,172
TRANSFERS IN	100,000	---
TRANSFERS <OUT>	<u>-100,484</u>	<u>---</u>
EXCESS OF REVENUE AND TRANSFERS OVER <UNDER> EXPENDITURES AND TRANSFERS	12,458	14,172
FUND BALANCE - BEGINNING OF YEAR	<u>291,278</u>	<u>277,106</u>
FUND BALANCE - END OF YEAR	<u>\$ 303,736</u>	<u>\$ 291,278</u>

LAKEWOOD WASTEWATER AUTHORITY

COMPARATIVE BALANCE SHEET BIO-SOLIDS FUND

DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
ASSETS		
Cash	\$ 107,945	\$ 71,363
Certificates of Deposit	<u>---</u>	<u>---</u>
TOTAL ASSETS	<u>107,945</u>	<u>71,363</u>
 FUND BALANCE	 <u>\$ 107,945</u>	 <u>\$ 71,363</u>

COMPARATIVE STATEMENT OF REVENUE, EXPENDITURES, TRANSFERS AND FUND BALANCE BIO-SOLIDS FUND

YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
REVENUE		
Interest	\$ 1,582	\$ 1,100
EXPENDITURES	<u>---</u>	<u>---</u>
EXCESS OF REVENUE OVER EXPENDITURES	1,582	1,100
TRANSFERS IN	35,000	35,000
TRANSFERS <OUT>	<u>---</u>	<u>---</u>
EXCESS OF REVENUE AND TRANSFERS OVER <UNDER> EXPENDITURES AND TRANSFERS	36,582	36,100
FUND BALANCE - BEGINNING OF YEAR	<u>71,363</u>	<u>35,263</u>
FUND BALANCE - END OF YEAR	<u>\$ 107,945</u>	<u>\$ 71,363</u>

COMPARATIVE BALANCE SHEET SEWER FUND

DECEMBER 31, 2004 AND 2003

	2004	2003
ASSETS		
CURRENT ASSETS		
Cash In Bank		
General operating	\$ 580,351	\$ 666,045
Payroll account	36,551	61,652
Certificate of deposit	---	---
Total Cash In Bank	616,902	727,697
Receivables		
Due For Sewer Charges And Penalties	71,774	57,406
TOTAL CURRENT ASSETS	688,676	785,103
PROPERTY, PLANT AND EQUIPMENT		
Land	507,804	507,804
Plant	13,405,678	13,148,500
Equipment	195,451	216,493
Less Provision for Depreciation	-4,837,032	-4,512,689
TOTAL PROPERTY, PLANT AND EQUIPMENT	9,271,901	9,360,108
TOTAL ASSETS	\$ 9,960,577	\$ 10,145,211
LIABILITIES AND RETAINED EARNINGS		
LIABILITIES		
Accounts Payable	\$ 14,123	\$ 10,796
Bonds Payable	1,450,000	1,610,000
TOTAL LIABILITIES	1,464,123	1,620,796
RETAINED EARNINGS	8,496,454	8,524,415
TOTAL LIABILITIES AND RETAINED EARNINGS	\$ 9,960,577	\$ 10,145,211

LAKEWOOD WASTEWATER AUTHORITY

COMPARATIVE STATEMENT OF REVENUE, EXPENSES AND CHANGES IN RETAINED EARNINGS SEWER FUND

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
REVENUE		
Charges for Service	\$ 795,204	\$ 711,722
Interest	5,049	10,291
Penalties and Extra Strength	186,186	183,221
Miscellaneous	50	310
TOTAL REVENUE	986,489	905,544
OPERATING EXPENSES		
Compensation	166,215	155,575
Payroll Taxes	12,807	11,585
Benefits	50,461	59,302
Insurance	29,310	23,221
Pension Plan	5,071	8,901
Workers Comp.	4,767	4,317
Telephone	10,116	8,945
Professional Fees	5,595	6,140
Office and Computer Supplies	3,822	6,018
Laboratory Supplies and Analysis	28,235	26,217
Gas and Oil	6,752	6,758
Repairs and Maintenance	75,678	41,006
Utilities	103,008	86,349
Advertising and Printing	543	410
Education	1,586	1,271
Safety	70	889
Miscellaneous	208	172
Depreciation	345,385	343,230
TOTAL OPERATING EXPENSES	849,629	790,306
NET INCOME BEFORE TRANSFERS	136,860	115,238
TRANSFERS IN	417,179	191,993
TRANSFERS <OUT>	-582,000	-344,500
INCREASE <DECREASE> IN RETAINED EARNINGS	-27,961	-37,269
RETAINED EARNINGS - BEGINNING OF YEAR	8,524,415	8,561,684
RETAINED EARNINGS - END OF YEAR	\$ 8,496,454	\$ 8,524,415

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
Lakewood Wastewater Authority

We have audited the financial statements of Lakewood Wastewater Authority as of and for the year ended December 31, 2004, and have issued our report thereon dated January 28, 2005. We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Lakewood Wastewater Authority's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lakewood Wastewater Authority's control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of Board of Directors, management and the State of Michigan. However, this report is a matter of public record and its distribution is not limited.



Karl L. Drake, P.C.
Certified Public Accountant

January 28, 2005